



MICHIGAN DISTRIBUTORS AND VENDORS ASSOCIATION, INC.

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Polly T. Reber, PRESIDENT

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To the House Tax Policy Committee,

The Michigan Distributors and Vendors Association represents wholesale distributors of grocery and convenience store products. We greatly appreciate the opportunity to talk about our industry with the Tax Policy Committee. Our wholesaler members sell and deliver a wide array of products that take a direct route from the manufacturer to the retail shelf. These include recognizable snacks and candy products from manufacturers such as Nabisco, Hershey's, and M&M Mars. The only products that our wholesalers deliver that do not take a direct route are tobacco products.

The State of Michigan requires wholesalers to have a license to sell cigarettes and other tobacco products, and wholesalers must comply with all tax laws, regulations, and requirements of the industry. Unlike other taxes imposed on retailers, Michigan's tobacco taxes are collected by licensed wholesalers, who must collect this tax from retailers and then remit it to the State on a monthly basis. Due to the nature of the industry, this money is usually due to the State from the wholesaler *before* the wholesaler can collect it from the retailer. Michigan law essentially requires the wholesalers to provide the State with a guaranteed, interest-free loan, and then puts the burden of ensuring repayment on the wholesaler.

Historically, Michigan has had one of the highest cigarette and tobacco tax rates in the country. Currently, this rate is \$2 per pack. To our south, the Ohio and Indiana tax rates are \$1.60 and \$0.99, respectively. This creates an incentive for wide-spread tax evasion of every kind. Michigan's businesses lose significant sales to illegal schemes and the State loses hundreds of millions of dollars in tax revenue to counterfeiting, smuggling, cross border and internet sales of untaxed cigarettes. As long as Michigan continues to impose one of the highest tobacco tax rates in the country, smuggling will always be a problem, but the best way to mitigate the problem is the implementation of anti-counterfeit devices such as tax stamps.

Over 500 million packs of cigarettes are sold "legally" in Michigan every year and each of those packs comes through one of our licensed wholesaler members who applies a tax stamp to the outside of the packaging. This means that individual cartons must be removed from cases, each of those cartons must be opened and sent, individually, through specialized stamp application machines. These machines work because the cigarette cartons and packs are all of a uniform shape and size.

This work requires a large amount of paperwork, recordkeeping, and reporting. It also requires security for both the cigarettes themselves, and the rolls of stamps the State requires the wholesaler apply. Because these stamps authenticate the legality of the product by documenting that the tax has been paid, they are desirable to smugglers and therefore they are valuable on the black market. This paperwork, record-keeping, and security are very costly for the Michigan's wholesalers, but these businesses have built themselves around these very specific requirements in order to operate, albeit on thin margins.

By distributing essential goods to Michigan’s retailers throughout the State, including to rural areas, Michigan’s wholesalers provide a great service to Michigan. These businesses have been recognized as necessary and classified as essential services during the COVID-19 pandemic. In order to operate thus, the statutes that affect this industry should be amended only with great consideration for the impact such changes would have on Michigan’s vital businesses.

***Polly T. Reber, President
Michigan Distributors & Vendors Association, Inc.***

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